

FIVE-YEAR LICENSE RENEWAL:  
Caesars Indiana

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## INTRODUCTION

The Riverboat Gambling Act (Act), effective July 1, 1993, authorized the Indiana Gaming Commission to issue licenses for the express purpose of riverboat gambling in the state of Indiana. Part of the statutory criteria for issuance of these licenses, in addition to being financially capable of completing the project and passing an Indiana State Police investigation, is the applicant's ability to promote tourism and economic development in the home dock area while best serving the interest of the citizens of Indiana. The Indiana Gaming Commission (Commission) contracted with the Center for Urban Policy and the Environment (Center) of Indiana University's School of Public and Environmental Affairs to perform economic impact, fiscal impact, financial, management, and other analyses required to assist the Commission in awarding the initial riverboat casino licenses. Additionally, the Commission requested the Center's assistance in monitoring the economic impacts and fiscal returns from each riverboat operation.

In partnership with the Commission, the Center has, since 1993, completed evaluations for the granting of ten riverboat casino licenses. The Center also has completed annual performance reports for all operating riverboat casinos. In addition, the Center has provided other analyses for the Commission, as requested, and also served as the staff and conducted extensive research for the Indiana Gambling Impact Study Commission.

The Center uses analytic and decision facilitation competencies to inform policy choices about complex societal, economic, and political problems, especially in Central Indiana. The Center is nonpartisan and non-ideological and works on a broad range of policy issues. Governments, nonprofit organizations, businesses, and foundations support projects at the center. Affiliated faculty from Indiana University–Purdue University Indianapolis and other universities, professional staff of the Center, and graduate assistants form project teams.

On May 20, 1996, the Commission issued a Certificate of Suitability for a Riverboat Owner's License for a riverboat to be docked in Harrison County, Indiana. Caesars Indiana (Caesars) formerly known as RDI/Caesars Riverboat Casino, LLC opened on November 20, 1998. The Act specifies that an owner's initial license expire five (5) years after the effective date of the license. This report is an analysis of Caesars' first five years of operation.

The Certificate specified certain levels of project development and incentive payments to be made by Caesars and specified that Caesars abide by agreements made with Harrison County. Because this analysis must be completed before the completion of Caesars' fifth year of operations, in year five, data are shown for year five through June 30, 2003. In addition to the five-year totals of components included in the previous annual reports, this report includes an analysis of the tourism impact of Caesars' visitors, a study of the employment impact, a descriptive analysis of the economic impact of the additional revenue received, and an analysis of the fiscal impact on local communities. This five-year report is the ninth of ten analyses, one for each Indiana riverboat. The first, an analysis of Aztar, was completed in February 2001. The next three, Empress, Trump, and Majestic Star, were completed in July 2001. The fifth and sixth, Grand Victoria and Argosy, were completed in



November 2001. The seventh report, Harrah's, was completed in April 2002. The eighth report, Blue Chip, was completed in July 2002.



## PROJECT DEVELOPMENT AND GAMING ACTIVITIES

The 5,000-passenger riverboat opened with 93,000 square feet of gaming space, a 170,000 square-foot permanent pavilion and a 1,650-space parking garage. The golf course, Chariot Run, opened in October 2002. Caesars has spent more than \$11 million on an archaeological dig on its property. The presence of the dig delayed construction on the 500-room hotel. It was scheduled to begin construction immediately after substantial completion of the guest pavilion, but opened in September 2001. Caesars also completed a 3,000-space parking garage in 2001. The gift shop and coffee shop opened in January and April 2000, respectively. The porte cochere (front entrance) opened in February 2000. A high-end restaurant opened in July 2000, and a dining and entertainment venue opened in September 2000. The people mover and buffet opened in December 1999.

Gaming activity reflects the number of riverboat patrons and how much money they spent. Spending is defined as the amount bet, less winnings received.

### Project Development Certificate Compliance

In the Certificate of Suitability (referred to throughout as Certificate), Caesars committed to spend approximately \$228.2 million on project development, in addition to pledging to Harrison County other incentives totaling several million dollars. At the end of June 2003, Caesars reported that \$434.6 million has been spent on project development, \$206.4 million more than agreed upon in the Certificate.

Caesars has spent money locally for both capital and operating expenses as well as through sponsorships and contributions. As Table 1 illustrates, since 1999, Caesars has spent \$161.9 million locally, with the majority of expenditures for construction. Additionally, Caesars has impacted the Harrison County area through \$1.6 million in sponsorships and contributions to local area organizations. This excludes any contributions that were part of the local development agreement, which are discussed under Incentive Payments.

Table 1: Local Spending, Sponsorship, and Contributions

	1999	2000	2001	2002	2003 through 6/30	Total
Local Spending (\$ millions)	\$39.6	\$45.3	\$67.4	\$7.4	\$2.2	\$161.9
Sponsorships and Contributions	\$158,156	\$371,168	\$410,098	\$391,685	\$280,487	\$1,611,597



## Gaming Activity

The Certificate did not require any specific levels of gaming activity by Caesars. As Table 2 illustrates, Caesars has had attendance of almost 21 million people since opening and adjusted gross gaming receipts of \$960.8 million, for an average casino win of \$46 of per patron per cruise.

Table 2: Gaming Activity

Category	1999	2000	2001	2002	2003 through 6/30	Total/Average
Admissions	4,250,267	4,553,679	5,383,147	5,164,537*	1,637,722*	20,989,352*
Gross Gaming Receipts	\$157,349,625	\$184,577,447	\$214,883,233	\$265,224,664	\$138,714,529	\$960,749,498
\$ Per Patron per Cruise	\$37	\$41	\$40	\$51*	\$85*	\$46

\* Reflects flexible boarding attendance since August 2002.

## Impact of Gaming Activity on Tourism

One argument for legalizing gaming riverboats was that the projects would become a tourist destination and local businesses would benefit from the influx of visitors who would consume goods and services at local establishments as well as at the riverboat casino. It also was assumed that most of the casino visitors would be tourists and not local residents.

With the cooperation of Caesars, the Center conducted face-to-face interviews with riverboat patrons over a four-day period in August 2003 (Friday through Monday) at the riverboat entrance. During the four-day period, the Center acquired a 187-patron sample. According to the survey data, the average distance traveled to the riverboat was 67 miles. Thirty-one percent of the interviewees were from Indiana, with ten percent from the local area (Harrison, Floyd, and Clark counties). Of the 69 percent from outside Indiana, more than half were from Kentucky and more than half of those from Kentucky were from Louisville.<sup>1</sup>

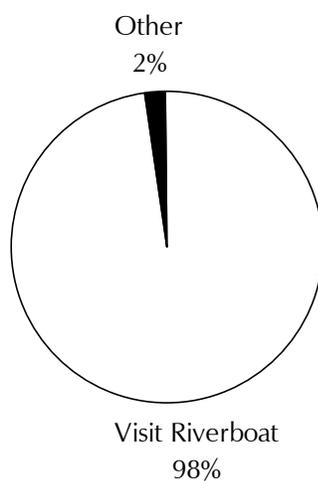
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<sup>1</sup> While not a statistically representative sample, survey responses were consistent and provide information necessary to draw adequate conclusions.



To suggest that riverboat casinos increase tourism in local areas is to presume that the riverboat will draw people that otherwise would not have visited the area. To test that assumption, each interviewed patron was asked to provide the main reason for traveling to the local area. Figure 1 indicates that 98 percent of the patrons stated that their main reason for traveling to the area was to visit the Caesars casino. The remaining two percent of interviewed patrons' primary reason for visiting the local area was for vacation, conducting business, or visiting relatives.

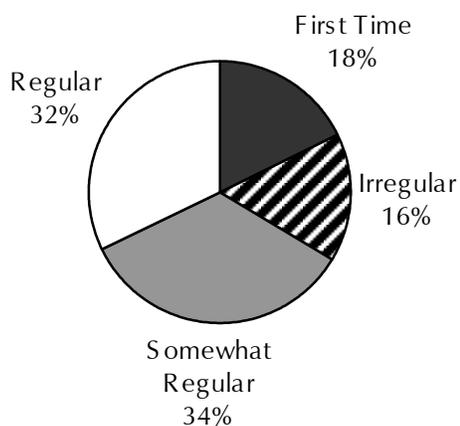
**Figure 1: Caesars Patrons' Reason for Visiting the Local Area**





The patrons also were asked how often they visit Caesars. Specifically, each interviewed respondent was asked to what degree he or she regularly visited the riverboat. Figure 2 illustrates the proportion of respondents who were categorized by broad categories: first time visitor, irregular visitor, somewhat regular visitor, or regular visitor. As shown, two-thirds of the patrons visit the riverboat at least somewhat regularly (34 percent somewhat regularly and 32 percent regularly). The remaining one-third of the interviewees visits Caesars less than two times a year.

**Figure 2: Regularity of Patron Visits to Caesars**



First time visitor

- Visiting Caesars for the first time

Irregular visitor

- Visit Caesars less than once a year
- Visit Caesars one or two times a year

Somewhat regular visitor

- Visit Caesars every couple months
- Visit Caesars once a month

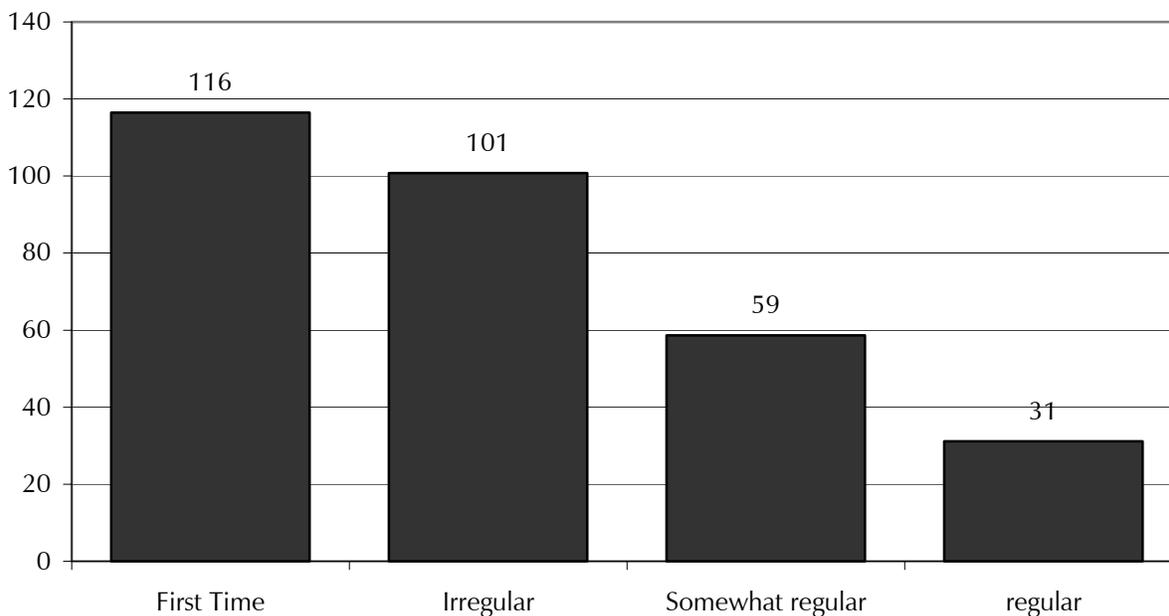
Regular visitor

- Visit Caesars once a week
- Visit Caesars two to three times a week
- Visit Caesars everyday



Figure 3 illustrates the average estimated distance traveled to visit the riverboat by regularity of visits. As shown, the average distance traveled consistently decreased from 116 miles to 31 miles as regularity of visits increased. The patrons who visit the riverboat more frequently are more likely to live closer to the riverboat.

**Figure 3: Average Miles Traveled by Regularity of Visits to Caesars**



As stated previously, 98 percent of the interviewed patrons were in the local area specifically to visit the riverboat. In addition, each patron was asked how long he or she planned to stay in the local area during his or her visit. Table 3 indicates that 35 of the 187 interviewed patrons (19 percent) stayed in the local area over 8 hours. Those who stayed for more than one day were more likely to have traveled farther distances to visit the riverboat. In general, patrons who stayed more than one day traveled an average of 93 miles. All interviewed patrons who stayed overnight stayed at the casino hotel. Many of those rooms were complimentary. Few patrons planned to do anything else in the local area. Some interviewees planned on patronizing businesses in the Caesars pavilion. Eight respondents planned to visit other Indiana riverboats (4 patrons to Aztar, 4 patrons to Belterra).

Table 3: Time Spent in Local Area

	Number of Patrons	Proportion of Respondents	Average Miles Traveled
8 hours or Less	152	81%	61
9 to 24 hours	5	3%	89
1 to 4 Days	30	16%	93
Total Sample	187	100%	67



## EMPLOYMENT

### Employment Certificate Compliance

As of June 30, 2003, 44 percent of Caesars' employees were women and 16 percent were minorities. Approximately 67 percent were from Indiana with 23 percent from Harrison County. Caesars committed to employ 13.6 percent minorities and 33.6 percent females. Caesars is more than meeting its commitment to hire women and minorities.

As Table 4 indicates, as of June 30, 2003, Caesars had employment of 2,239 persons in the hotel and casino, slightly above their five-year average of 2,198. Since opening, Caesars has paid \$329.5 million in wages. Full- and part-time employees receive benefits that include health care coverage and vacation time.

Table 4: Employment and Wages

Category	1999	2000	2001	2002	2003 through 6/30	Total/Average
Employment	2,065	2,147	2,259	2,278	2,239	2,198
Total Wages, Tips & Benefits	\$60,823,650	\$64,888,105	\$73,361,475	\$86,559,571	\$43,845,168	\$329,477,969

### Impact on Caesars Workforce

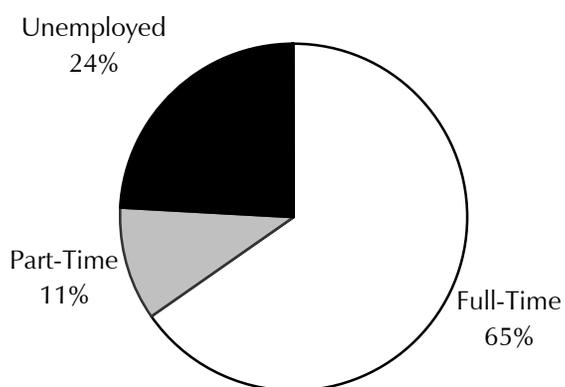
In testimony given to the Indiana Gambling Impact Study Commission in 1999, proponents of legal gaming asserted that gaming-related employment offers the chronically unemployed and under-employed an opportunity to establish a work record and skill set that may lead to even greater economic opportunity. Those who oppose legal gambling questioned the validity for this assertion and claimed that gambling-related jobs are often dead-end positions, plagued by high turnover rates. As part of the five-year analysis, current Caesars employees were asked to complete a survey of their past and current work history, including questions about the learning and skill-building opportunities presented to them. This analysis is based on 1,919 surveys received from 2,198 total employees at Caesars for a response rate of 87 percent.



### *Previous Employment Status*

As shown in Figure 4, 24 percent of the current Caesars employees who responded to the survey question regarding previous employment were unemployed prior to beginning work at the riverboat. Sixty-five percent had full-time jobs. The average annual wage of the 1,048 Caesars employees who were employed full-time prior to beginning work and who reported a previous wages was \$28,851.

**Figure 4: Employment Status Prior to Beginning Work at Caesars**

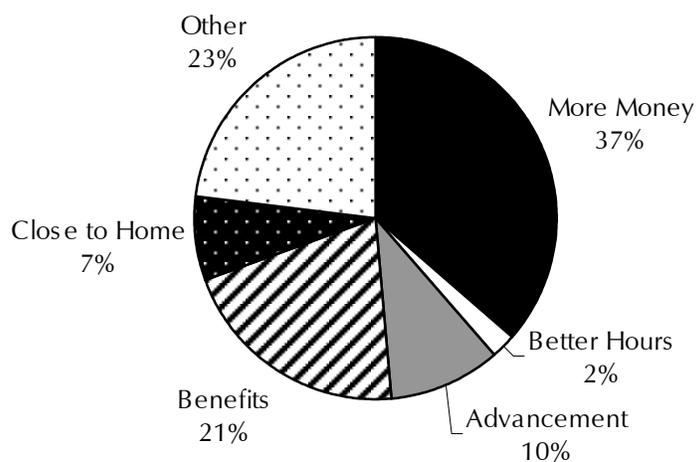




### Reasons for Leaving a Job to Accept Employment at Caesars

As shown in Figure 5, for the 1,401 survey respondents who left full- or part-time positions and responded to the question regarding the motivation to begin work at Caesars, the principal reason was more money (37 percent). Better benefits (21 percent) and greater career advancement opportunities (10 percent) were the second and third most common reasons the previously employed cited for beginning work at Caesars. The most common prior occupation of current Caesars employees who left full- or part-time positions to begin work were either service sector jobs (29 percent), retail sector jobs (10 percent), manufacturing sector jobs (9 percent).

**Figure 5: Why Previously Employed Accepted Job at Caesars**

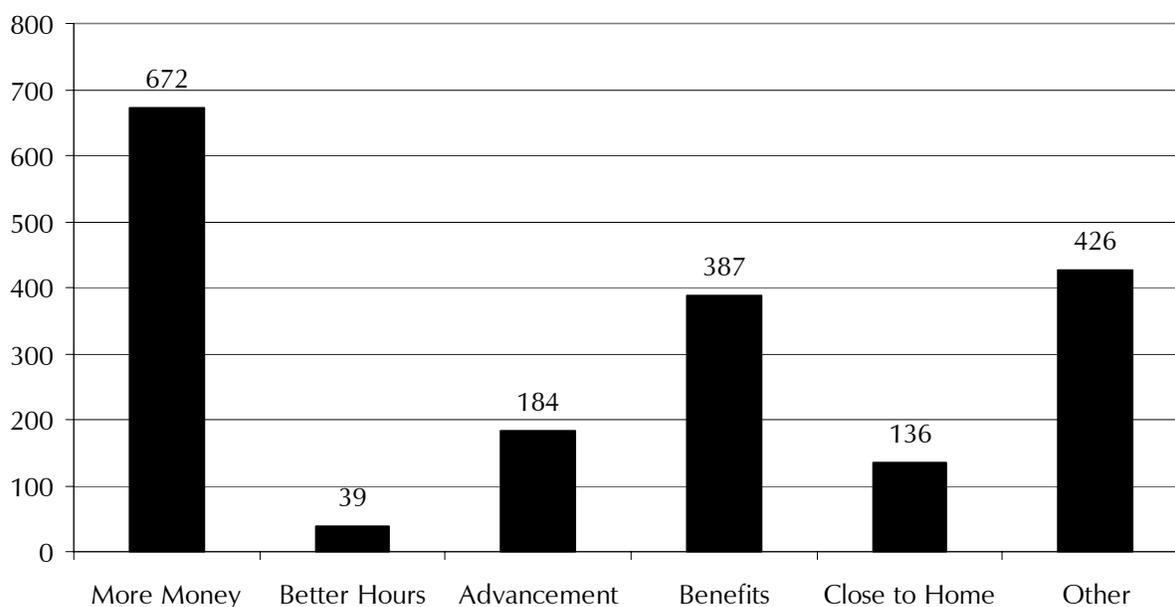




### Reasons for Beginning Employment at Caesars

As shown in Figure 6, more money was the principal motivation for 672 or 36 percent of those responding to this question. This number exceeds the number of people who reported receiving a raise upon beginning work at Caesars. This result could be explained by the number of respondents who did not provide previous salary data. However, it also could suggest that expectations regarding pay levels were high. Better benefits were the second most common response with 387 responses or 21 percent. Common responses included in the other category included: needed a job, time for a change, seemed like it might be fun, and had a friend who worked there.

**Figure 6: Primary Reason for Beginning Employment at Caesars (All Respondents)**

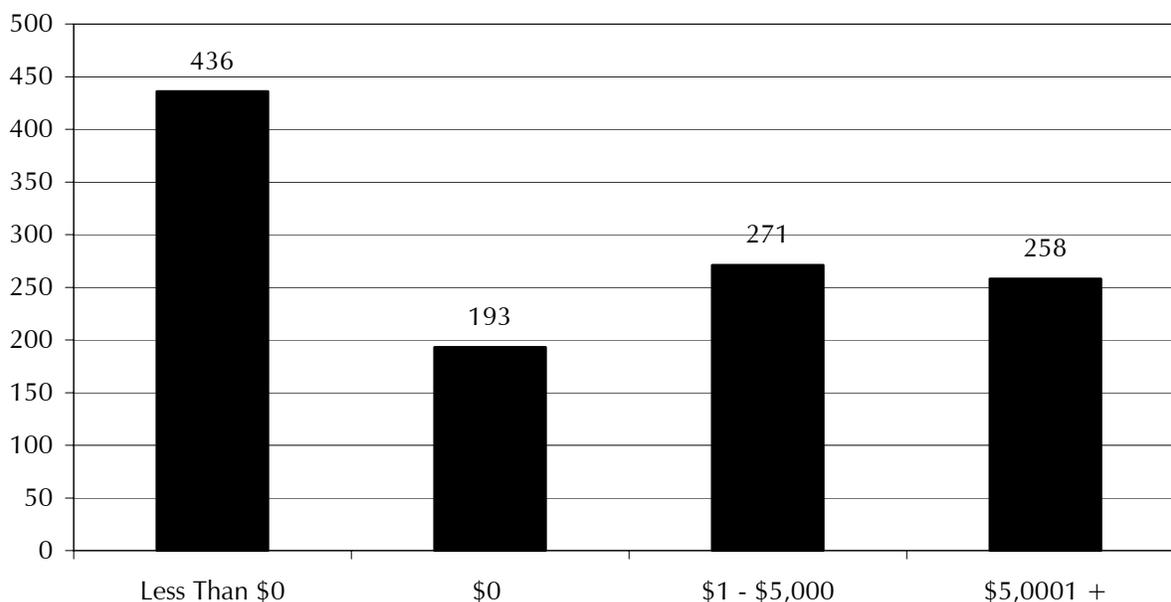




### *Change in Annual Wages Upon Beginning at Caesars*

With 36 percent of those who responded to the question concerning motivation for accepting a job at Caesars citing more money, this section looks at changes in wages. Of the 1,919 respondents, 1,158 provided information that compared previous wages to starting wages at Caesars. As shown in Figure 7, 45 percent of the respondents received a raise when starting at Caesars, of those with raises, 271 received an initial raise of less than \$5,000 and 258 received a raise of \$5,001 or more. The median increase for employees reporting a wage from their previous employer and starting wage at Caesars was \$0. The average increase for employees reporting both previous and starting wages was \$311.

**Figure 7: Change in Annual Wages from Previous Job to Starting at Caesars**

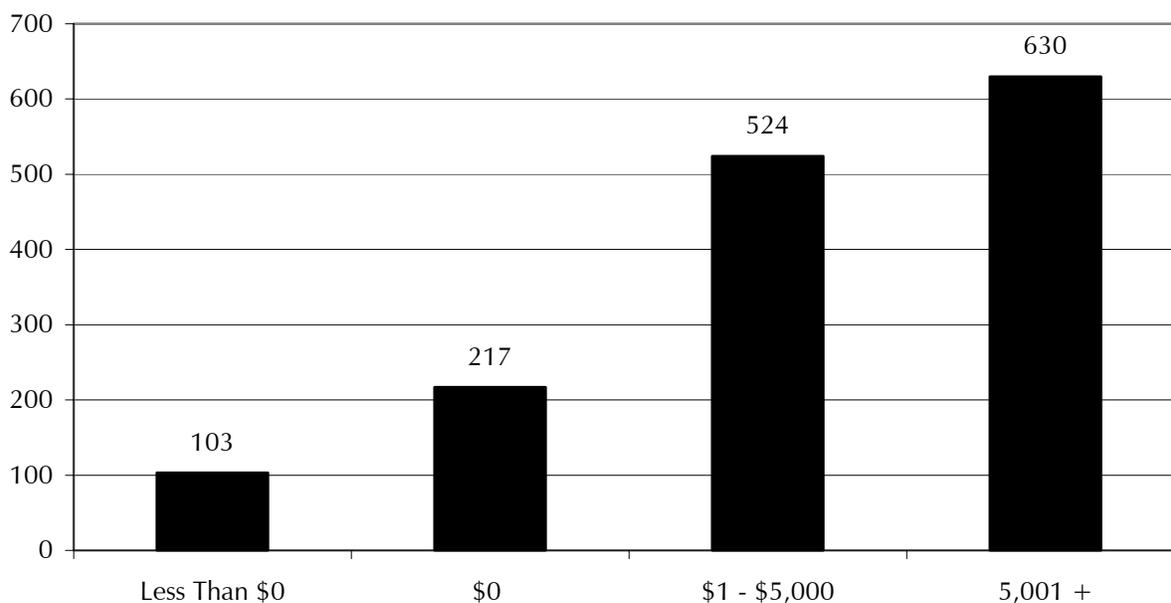




### Caesars Employment History

Figure 8 shows that 1,154 of the 1,474 (over 78 percent) survey respondents reporting current and beginning wages at Caesars have experienced an increase in wages since beginning work at Caesars. Only 103, or nearly seven percent, experienced a decline in annual wages since beginning employment at Caesars. The average increase in wages for all employees reporting both current and beginning wages was \$6,732 over the period. The median increase was \$3,860. Over the same period, per capita income in Indiana grew by \$3,295. The 29 percent rate of increase for Caesars workers compared to the 15 percent increase for all Indiana workers shows that Caesars incomes are growing, on average, faster than wages for other workers in Indiana. An additional measure of the increased economic well-being is the fact that 241 respondents (13 percent) reported moving from rental housing to homeownership while employed at Caesars

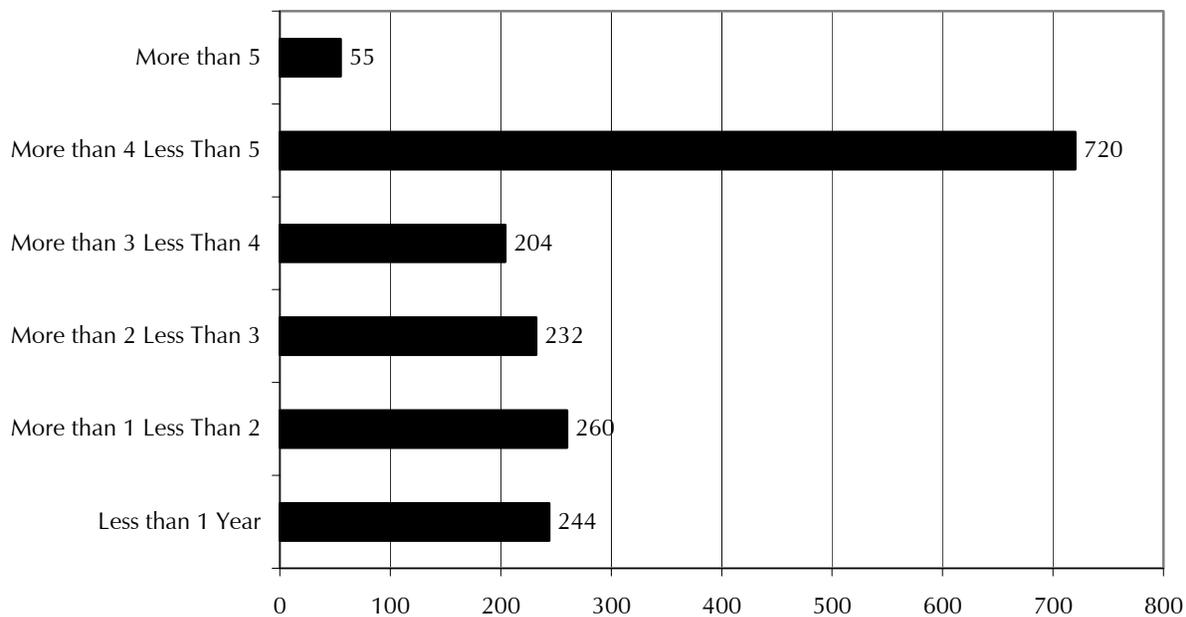
**Figure 8: Change in Annual Wages Since Beginning Employment at Caesars**





The average length of employment at Caesars reported by survey respondents was three years and three months; the median length of employment was three years and seven months. As shown in Figure 9, 775 workers or 45 percent of respondents reported working at Caesars for four or more years. Twenty-nine percent of the respondents have worked at Caesars for less than two years.

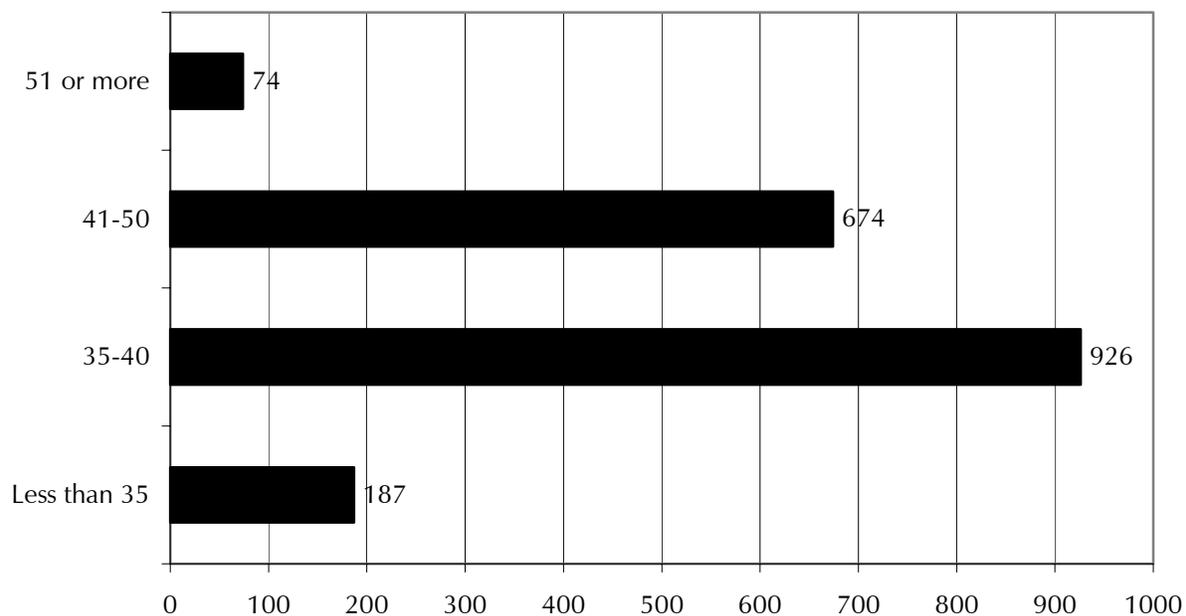
**Figure 9: Years Worked at Caesars by Number of Respondents**





Ninety percent of the Caesars employees responding to a survey question regarding hours worked per week are full-time employees working between 35 and 50 hours per week. As shown in Figure 10, only 187, or 10 percent, report working part-time or less than 35 hours. While it is possible that those working full-time were more likely to return their survey, the vast majority of respondents employed by Caesars work on a full-time basis.

**Figure 10: Hours Worked per Week by Caesars Employees**

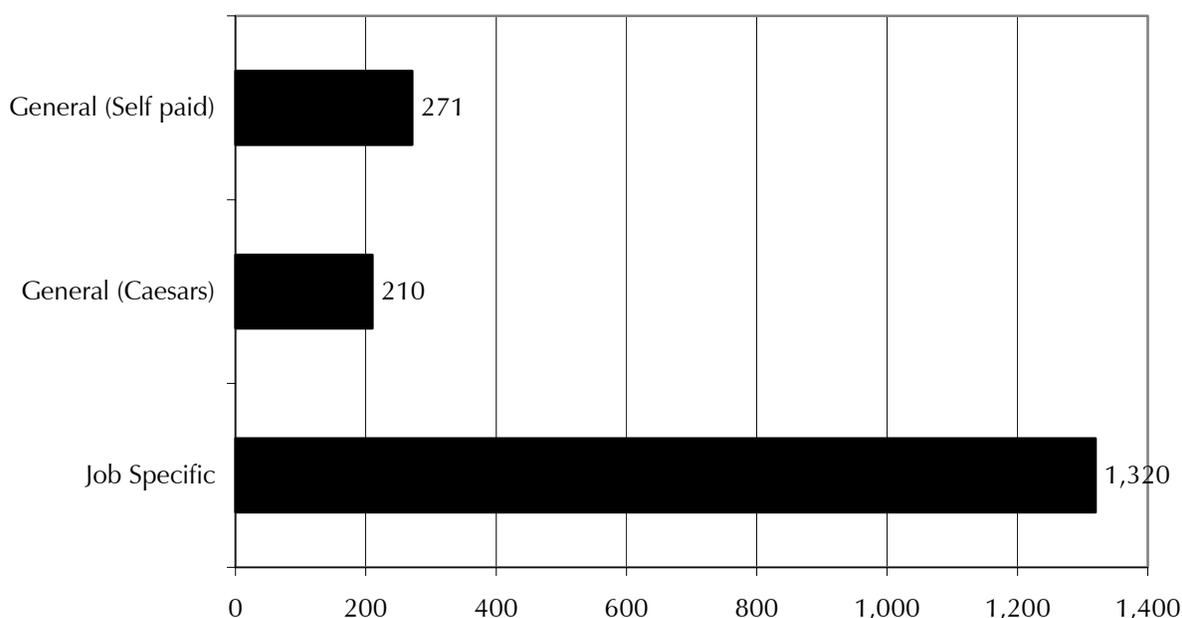




### Employee Training and Skill Building

While the data on wages and employment show that Caesars employees are, for the most part, experiencing improved economic conditions, training and skill enhancements are key levers to continued growth and career opportunities. Figure 11 shows that while 1,320 (nearly 69 percent of those responding to that question) reported riverboat job-related training, fewer Caesars employees are accessing skill-building opportunities beyond those directly related to their duties at the riverboat. In fact more employees paid for their own training (271) than received additional skill-building opportunities paid for by Caesars (210).

**Figure 11: Training and Skill Building of Caesars Employees**



Forty percent of all respondents reported a high school degree as their highest level of academic achievement and 41 percent reported some college as their highest level of academic achievement. Arguably, these two groups, based on educational experience and need, are best positioned to take advantage of additional educational and skill-building opportunities. Six percent of the high school graduates and 15 percent of those with some college reported receiving non-job-related general education opportunities funded by Caesars. The employees who received the highest share of educational and skill-building training provided by Caesars were those with undergraduate degrees (19 percent). While 31 percent of the Caesars employees with college degrees, 26 percent with some college, and 23 percent with Master degrees reported paying for additional skill-building opportunities, only six percent of those with high school degrees paid for additional skill-building opportunities on their own. With the information gathered from this survey, there are no means to determine if these results are determined by employee decisions, lack of availability of training, or other factors.



## ECONOMIC AND FISCAL ACTIVITY

Since opening in 1998, through June 30, 2003, Caesars has paid local governments over \$96 million in gaming-related taxes (admissions and wagering taxes) and has voluntarily contributed an additional \$49.2 million to Harrison County, the Harrison County Community Foundation, and Caesars Riverboat Casino Foundation, Inc.

In addition to gaming-related taxes, Caesars also generates traditional local tax revenues, principally property taxes on the boat and on other facilities. The presence of the casino and its patrons creates additional costs for local government. For example, the boat and the accompanying change in traffic patterns and volume may require new infrastructure or more frequent maintenance and increased traffic control costs. The influx of new visitors may require additional public safety expenditures. Riverboat casino employees may choose to relocate within the community and pay new taxes (principally property) and demand new infrastructure and services, including police protection and schools. The fiscal impact of Caesars is determined by comparing the additional tax revenues attributable to the casino to the service and infrastructure costs. If added revenue exceeds cost, the fiscal impact is said to be positive. If the added revenues fall short of costs, the fiscal impact is negative.

While there is much discussion and controversy regarding the economic benefits of the gaming industry, little attention has been focused on the economic benefits generated by spending the local tax dollars generated from the gaming industry. The Indiana Gambling Impact Study Commission found that those who support legalized gaming claim economic benefits such as new jobs at the casino, millions of dollars of private investment for gaming facilities, accompanied by spin-off benefits generated by visitors to and suppliers of the facilities. Those who question the economic benefits generated by the gaming industry claim that much of the spending is done by local residents and represents redirected rather than new dollars for the local economy. Opponents also claim that profits are exported to the corporate headquarters of the local casino and that there is no evidence of new visitor spending beyond the gaming facility.

This debate ignores the economic contributions made by spending the tax revenue generated by gaming facilities for local government. The manner in which local governments choose to invest local gaming tax revenue has immediate and long-term impacts for the local economy. An immediate benefit occurs when local tax dollars are spent and the effect works its way through the local economy. The long-term benefit is determined by how well this spending contributes to the long-term economic competitiveness of the local economy.



This chapter of the analysis discusses the following:

- **Compliance:** documents Caesars compliance with mandatory tax payments and voluntary contributions
- **Fiscal Impact:** analyzes the new gaming-related costs and revenues generated by Caesars for taxing units in Harrison County
- **Economic Benefits:** identifies the immediate economic benefits generated by Caesars local gaming-related tax payments and voluntary contributions

## Compliance

### Tax Revenue

There are two sources of direct gaming revenue: the gaming tax, which, until August of 2002, was 20 percent of gross revenues, and the admission tax, a total of \$3 per admission. The current tax rate is graduated: less than \$25 million in gross revenues is taxed at 15 percent, between \$25 and \$50 million is taxed at 20 percent, between \$50 million and \$75 million is taxed at 25 percent, between \$75 and \$150 million is taxed at 30 percent and over \$150 million is taxed at 35 percent. Because the riverboat is not located in an incorporated city, Harrison County receives one-quarter of the gaming tax and \$2 per admission. In addition, another dollar is collected that is split several ways by the state. There are other revenues that are collected as a result of the gaming facility being located in the community—property taxes, sales taxes, and food and beverage taxes. There are at least two types of impacts that direct gaming revenues have had on the local community. The first type of impact we examine is the overall fiscal impact on local governments in Harrison County, which is discussed in the Fiscal Impact of Tax Revenues on Local Government section. The second type is the economic impact generated by additional spending. The impact of the additional spending is discussed in the Economic Benefits of Gaming-Related Taxes and Incentives section.

As Table 5 illustrates, Caesars has paid over \$169 million in direct taxes to the state of Indiana since it opened.

Table 5: State Direct Taxes

Category	1999	2000	2001	2002	2003 through 6/30	Total
Gaming Tax (State share)	\$23,605,196	\$27,686,617	\$32,232,485	\$39,783,700**	\$20,807,179**	\$144,112,425**
Admission Tax (State share)	\$4,250,267	\$4,553,679	\$5,383,147	\$5,164,537*	\$1,637,722*	\$20,989,352*
Sales and Use Tax	\$464,193	\$735,196	\$988,308	\$1,256,153	\$723,507	\$4,167,357
<b>TOTAL</b>	<b>\$28,319,656</b>	<b>\$32,975,492</b>	<b>\$38,603,940</b>	<b>\$46,204,390</b>	<b>\$23,168,408</b>	<b>\$169,269,134</b>

\*Reflects flexible boarding attendance since August 2002.

\*\*Reflects graduated tax rate since August 2002.



In addition, as Table 6 shows, Caesars has paid over \$100 million in direct taxes (gaming, admission, and property taxes) to the county since it opened.

Table 6: Local Direct Taxes

Category	1999	2000	2001	2002	2003 through 6/30	Total
Gaming Tax (County share)	\$7,867,481	\$9,228,872	\$10,744,162	\$13,261,233*	\$6,935,726*	\$48,037,475*
Admission Tax (County share)	\$8,500,534	\$9,107,358	\$10,766,294	\$10,329,074**	\$3,275,444**	\$41,978,704**
Property Tax	\$37,656	\$818,004	\$1,346,933	\$1,228,655	\$615,000	\$4,046,248
TOTAL	\$16,405,671	\$19,154,234	\$22,857,389	\$24,818,962	\$14,486,452	\$100,121,198

\*\*Reflects cap in revenue.

\*Reflects flexible boarding attendance since August 2002

Harrison County shares 16 percent of its riverboat funds with three other counties (Crawford, Washington, and Floyd) and 12 local municipalities. Table 7 details the revenue sharing distributions. The county also distributes 2 percent of the fund each year divided among the towns in Harrison County for infrastructure, according to a formula based on population.

Table 7: Harrison County's Revenue Sharing of Riverboat Revenue

	1999	2000	2001	2002	2003 through 6/30	Total
Crawford County	\$1,152,596	\$1,449,066	\$1,681,013	\$1,911,408	\$854,914	\$6,972,386
Washington County	\$288,149	\$362,267	\$420,253	\$477,852	\$213,728	\$1,743,097
Floyd County	\$144,075	\$181,133	\$210,127	\$238,926	\$106,864	\$871,548
New Albany	\$432,224	\$543,400	\$630,380	\$716,778	\$320,593	\$2,614,645
Georgetown	\$144,075	\$181,133	\$210,127	\$238,926	\$106,864	\$871,548
Corydon	\$43,222	\$54,340	\$63,038	\$71,678	\$32,059	\$261,464
Crandall	\$43,222	\$54,340	\$63,038	\$71,678	\$32,059	\$261,464
Elizabeth	\$43,222	\$54,340	\$63,038	\$71,678	\$32,059	\$261,464
Laconia	\$43,222	\$54,340	\$63,038	\$71,678	\$32,059	\$261,464
Lanesville	\$43,222	\$54,340	\$63,038	\$71,678	\$32,059	\$261,464
Mauckport	\$43,222	\$54,340	\$63,038	\$71,678	\$32,059	\$261,464
Milltown	\$43,222	\$54,340	\$63,038	\$71,678	\$32,059	\$261,464
New Amsterdam	\$43,222	\$54,340	\$63,038	\$71,678	\$32,059	\$261,464
New Middletown	\$43,222	\$54,340	\$63,038	\$71,678	\$32,059	\$261,464
Palmyra	\$43,222	\$54,340	\$63,038	\$71,678	\$32,059	\$261,464
TOTAL	\$2,593,339	\$3,260,399	\$3,782,280	\$4,300,670	\$1,923,554	\$15,687,868



### *Incentive Payments*

The largest impact of Caesars in the Harrison County area (outside of taxes) has been through incentive payments. These payments are the result of agreements that were made with Harrison County as part of their application process. In its Certificate of Suitability, Caesars agreed to provide incentive payments, as detailed below.

As Table 8 illustrates, Caesars is on schedule with its incentive payments and has provided \$49.2 million in incentive payments through June 30, 2003. While all the fixed incentives were completed in year one (except for the contributions to utilities), the largest incentive, the contributions to the foundations, will continue into the future.

The Certificate called for Caesars to make contingent contributions to foundations in Harrison and Floyd counties in the amounts described below. The Floyd County Foundation was and is now known as Caesars Riverboat Casino Foundation, Inc. To avoid duplication of effort, Harrison County and Caesars have amended the development agreement to allow the portion that was originally allocated to a newly created Harrison County Foundation to be given to the previously established Harrison County Community Foundation. This saves administrative costs and allows for more efficient use of resources.

As listed in Table 8, Caesars provided a \$5 million incentive to the Harrison County Community Foundation as well as continuing funding. Through June 30, 2003, the Harrison County Community Foundation has distributed \$5,286,027 while the Caesars Riverboat Casino Foundation, Inc has distributed \$1,727,448. Their distributions fund scholarships and community projects.



Table 8: Schedule and Description of Incentive Payments

Incentive	Promised Amount	Recipient	Amount Paid Through 6/30/2003	Status
Contribution	\$5,000,000	Harrison County Community Foundation	\$5,000,000	Completed Year 1
Contribution	1.5% AGR \$0-100,000,000 2.25% AGR \$100,000,001- \$150,00,000 3.75% AGR \$150,000,001- \$200,000,000 7.5% Annual AGR over \$200,000,001	Harrison County Community Foundation	\$22,900,864	Ongoing
Contribution	.5% AGR \$0-100,000,000 .75% AGR \$100,000,001- \$150,00,000 1.25% AGR \$150,000,001- \$200,000,000 2.5% Annual AGR over \$200,000,001	Floyd County Foundation (now Caesars Riverboat Casino Foundation)	\$7,633,621	Ongoing
Advance to the county	\$1,750,000	Harrison County	\$1,750,000	
Road improvements	Not specified	NA	\$5,557,998	Completed Year 1
Contribution to utilities	\$2,640,000	Elizabeth Water Co.	\$5,581,929	Ongoing
Emergency response requirements	Not specified	Fire, Police, Ambulance	\$540,588	Completed Year 1
County legal fees	\$250,000	Harrison County	\$211,228	Completed Year 1
TOTAL			\$49,176,228	

### Fiscal Impact of Tax Revenues on Local Government

Riverboat casinos affect the revenues and costs of the local governments of the communities that host them. This is known as the *fiscal impact*. Riverboats pay new property taxes on the boat and other new facilities. They pay the admissions and wagering taxes that the host local jurisdictions share with the state. Riverboats also may impose new costs on local governments. For example, they may require added infrastructure, traffic control, or public safety expenditures. In addition, riverboat employees may relocate within the community, and pay added property taxes, income taxes, charges, and fees. If they relocate in the riverboat communities, they also will demand new infrastructure, recreation facilities, police protection, and education for their children. Measuring the fiscal impact implies comparing these additional revenues and costs. If added revenues exceed added costs, the fiscal impact is said to be positive. If added revenues fall short of added costs, the fiscal impact is negative.



This analysis applies recognized fiscal impact methods, described in Appendix A, to assess the impact of the Caesars riverboat on the budgets of Harrison County and the South Harrison Community Schools for the year 2002. The analysis for each unit shows the effect on the unit's budget for this single year. Assessments, tax rates, and appropriations levels have changed only gradually from year to year since the riverboat began operation. This means that the results for the most recent year are typical, and representative of all the years since the advent of the riverboat. Recent changes in property assessment practices, riverboat tax rates and riverboat operating conditions may affect the application of these results to future years, however.

#### *Overall Impact on Harrison County*

Table 9 shows total assessed value<sup>2</sup> in the assessment years 1988, 1994, and 2001 (that is, assessed values for taxes payable in 1989, 1995, and 2002). Like Indiana as a whole, Harrison County assessed value grew more slowly in 1994-2001 than it did in 1988-94. This is primarily because the 1980s saw more inflation in construction costs than the early 1990s. The 1989 reassessment increased taxable values more than did the 1995 reassessment. In both periods, Harrison County's assessed value growth exceeded the state's. In 1988-94, Harrison's growth rate was 2.6 percentage points greater than Indiana's; in 1994-2001, Harrison's growth exceeded Indiana's by 2.3 percentage points. While the riverboat certainly contributed to Harrison's assessment growth, it is not evident from these data that it accelerated growth. Harrison's property values are growing rapidly, and the riverboat's contribution appears to be part of this trend.

Table 9: Assessed Value in Assessment Year, Harrison County, 1988-2001 (thousands)

	1988	1994	2001	Avg. Annual % Change	
				1988-94	1994-2001
Harrison County	317,335	553,957	878,371	9.7%	6.8%
Indiana	85,521,088	129,084,223	175,987,095	7.1%	4.5%

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<sup>2</sup> Assessed value is the dollar value placed on real and personal property by local assessors, for property tax purposes. Real property is land and buildings (and, in Indiana, riverboats). Personal property is business equipment and inventories. Until 2002 Indiana divided its assessed values by 3, so actual assessed values for those years are not directly comparable to assessments in 2002. For the sake of comparison, assessed values for 1988 and 1994 were multiplied by 3 in Table 9.



The Caesars riverboat is a major employer, reporting 2,278 employees in Harrison County at the end of 2002. This figure represents about 13.5 percent of total employment in Harrison County. Table 10 shows that Harrison County employment grew 1.9 percent per year between 1988 and 1994, just the same as the state's employment growth. Between 1994 and 2001, however, Harrison's growth rate increased to more than triple the Indiana rate. Riverboat employment represents about one-half of the job growth in Harrison County since 1994. It is likely that much of this growth increase is due to the advent of the riverboat.

Table 10: Place-of-work employment in Harrison County, 1988-2001

	1988	1994	2001	Avg. Annual % Change	
				1988-94	1994-01
Harrison County	11,106	12,414	16,924	1.9%	4.5%
All Indiana	2,953,581	3,314,850	3,631,598	1.9%	1.3%

Harrison County's per capita income is lower than the state average (Table 11). Harrison's growth rate in real per capita income (above inflation) was identical to Indiana's during 1988-94. After 1994, Indiana's real income continue to grow as it had, but Harrison's growth rate increased. In 1994 Harrison's per capita income was 85 percent of Indiana's. In 2001, Harrison's per capital income was 90% of Indiana's. This more rapid growth may be partly due to the riverboat.

Table 11: Personal income Per Capita in 2002 dollars, Harrison County, 1988-2001

	1988	1994	2001	Avg. Annual % Change	
				1988-94	1994-01
Harrison County	20,160	21,844	25,123	1.3%	2.0%
All Indiana	23,747	25,678	27,957	1.3%	1.2%

As shown in Table 12, Harrison County's population growth was similar to Indiana's during 1988-94. During 1994-2002, however, Harrison's growth rate was more than double the state's growth rate. Harrison's population increased by almost 4,000 in the eight years since 1994. The riverboat may have had an impact on population growth.

Table 12: Population in Harrison County, 1988-2002

	1988	1994	2002	Avg. Annual % Change	
				1988-94	1994-02
Harrison County	29,522	31,268	35,244	1.0%	1.5%
All Indiana	5,491,733	5,793,526	6,126,743	0.9%	0.7%



Table 13 shows school enrollment. Here we need not rely on countywide data, but can look at the South Harrison Community School Corporation. The Caesars riverboat docks within the borders of this school corporation. South Harrison Community Schools enrollment increased during 1988-94, at a time when Indiana's enrollment was almost unchanged. Since 1994, however, South Harrison's enrollment growth has slowed, and has matched Indiana's growth. The school corporation enrolled 104 more pupils in 2003 than in 1994, but had grown by 276 in the previous six years. The advent of the riverboat does not appear to have had a substantial effect on South Harrison Community Schools enrollment.

Table 13: School Enrollment in South Harrison Community Schools, 1988-2003

	1988	1994	2003	Avg. Annual % Change	
				1988-94	1994-03
South Harrison Community Schools	2,677	2,953	3,057	1.6%	0.4%
All Indiana Schools	927,687	930,836	968,331	0.1%	0.4%

The arrival of the Caesars riverboat does not appear to have increased assessed value growth in Harrison County, but it appears to have increased employment and per capita income. Population has increased more rapidly in Harrison since the riverboat arrived, but there seems to have been little impact on school enrollment in South Harrison Schools, however. These observations are important from a fiscal impact perspective. Local revenues are more closely related to assessed value, jobs, and income. Employment and income are probably higher in Harrison because of the riverboat. Local costs are more closely related to population and school enrollment. Population growth increased in Harrison County after 1994, so the county government has had more citizens demanding services. School enrollment did not accelerate, so the school corporation has not had a large increase in its service demands. Since the county is the major recipient of admissions and wagering tax revenue, it is more likely to have the revenue to cover the service demands of almost 4,000 new residents. The school corporation does not directly receive wagering or admissions tax revenue, so the small increase in enrollment probably has helped it avoid fiscal difficulties.

*Fiscal Impact of New Employment*

In the fall of 1999 surveys were mailed to 1,750 riverboat employees representing seven of the nine riverboats then operating,<sup>3</sup> randomly sampled using payroll information. Seventy-four employees had relocated, decreasing the sample to 1,676. Four hundred and fifty-seven questionnaires were returned, for a response rate of 27.3 percent. For the Caesars riverboat, 236 valid surveys were mailed, and 87 were returned, for a response rate of 37 percent.

<sup>3</sup> The tenth Indiana riverboat began operation in 2000 in Switzerland County.



Table 14 shows the location of employees before and after they were hired by the riverboats. There were 87 usable survey responses from the Caesars riverboat in Harrison County for this question. Of the 87 responses, 15 relocated upon becoming riverboat employees, while 72 did not relocate. Of those who relocated, 3 moved into Harrison County, while 12 moved into a neighboring county.

Eighty-seven employees is of course a very small sample. However, our confidence in these results is increased by the fact that similar results were found for all Indiana riverboats surveyed. In the statewide sample of 448 usable responses, only 22 percent relocated, while 78 percent did not. The results for Caesars employees are similar to the state total, in that few employees relocated.

Extrapolating the survey results to all 2,278 Caesars employees (as of December 2002), 3.4 percent or 77 moved from elsewhere to Harrison County, and 24.1 percent or 549 existing county residents took new jobs with the riverboat. The remainder of the employees live outside Harrison County.

Table 14: Location of employee residence prior to employment

	Host County		Non-Host Area		Total	
	N	% Total	N	% Total	Total	Percent
New	3	3.4%	12	13.8%	15	17.2%
Existing	21	24.1%	51	58.6%	72	82.8%

Host: County in which riverboat is located  
 Non-Host: Surrounding area  
 New: Employee moved from outside area to obtain employment  
 Existing: Employee was a resident in area prior to employment

The survey also asked about housing construction. Four of the 87 Caesars survey respondents answering this question reported living in a single family house built since 1996. This is also consistent with other riverboat counties—few employees have bought newly built houses.

### *Fiscal Impact on Harrison County*

The Caesars riverboat is one of two that do not dock in an incorporated city or town (Belterra in Switzerland County is the other). This means that the Harrison County government is the only local government that receives direct tax payments from the riverboat. It also means that the county government receives admissions and wagering tax revenue that in most counties goes to a city or town.

The Caesars riverboat adds \$44.6 million in new assessed value. Note that this figure was established under the assessing procedures used in the 1995-96 reassessment. Assessments from the 2002-03 reassessment are not yet available. Prior to 2002, Indiana divided its assessed values by three. This means that assessments tripled between 2002 and 2003. Tax rates were reduced by two-thirds, however, so this had no effect on property tax collections.

The county's cumulative fund property tax rate adds \$14,899 in new revenue to the county budget. The operating and welfare rates generate \$228,735 in new revenue. However, a 2002 revision to



Indiana's property tax controls fixes the annual increase in the levies which civil units of government can collect, regardless of the unit's assessed value change. In effect, the riverboats produce no added operating revenue—each dollar of added riverboat tax is offset by a dollar decline in taxes paid by existing taxpayers. The same is assumed to be true for welfare. Welfare appropriations are determined by state rules, and we assumed that the advent of the riverboat does not change the number of eligible recipients. The added riverboat taxes for welfare are offset by lower welfare taxes on existing taxpayers. The county has no debt service rate. The tax savings from the operating and welfare rates do not provide additional revenue to county, but they do have a fiscal impact upon the citizens of Harrison County, who pay lower property taxes than they would have without the riverboat.

Harrison County uses a combination of two local income taxes, the county adjusted gross income tax (CAGIT) at 0.75 percent, and the county economic development income tax (CEDIT) at 0.25 percent. These income taxes are paid by individuals, not businesses, so the added revenue represents payments from new employee incomes. A fraction of the CAGIT revenue must be used for property tax relief, and so is counted as tax savings. The remainder is "spendable" by the county. The income taxes add \$22,292 in revenue, and \$2,739 in tax savings. Other revenues include motor vehicle excise taxes, charges and fees, and additional miscellaneous revenue. The sum is \$13,390. Overwhelmingly, the largest revenue source attributed to the riverboat is the admissions and wagering taxes received by the county, which total \$23.2 million. Because the riverboat does not dock in an incorporated city or town, the county government receives \$2 per admission, and 25 percent of the wagering tax revenue. Note that this revenue figure is for state fiscal year 2002, and so does not reflect changes in admissions counts brought about by dockside gaming, nor changes in wagering tax rates.

The added costs to Harrison County of the riverboats and their employees are estimated using two cost estimate methods described in Appendix A. The two results establish a possible range of added costs, from \$88,728 to \$170,247.

Fiscal impact is calculated as the added revenues less the added costs of a development. For the county, eight different fiscal impact calculations were performed. Detailed results are presented in Table A1 in Appendix A. When riverboat admissions taxes are included, the fiscal impact is *overwhelmingly positive, at about \$23 million*. The added revenue is far more than the added costs. This is true if only added revenues without tax savings are counted, or if total revenues are counted, and it is true under either estimate of added costs.

We also calculated the fiscal impacts with the riverboat taxes excluded: each of the cost estimates, with only added non-riverboat tax revenue and with total non-riverboat tax revenue. We calculated the fiscal impact without the added revenue from the riverboat because county riverboat tax revenues have been assigned primarily to capital improvements. Tax savings can be turned into added revenues through several avenues, including new bond issues (debt service), tax increment financing, and added cumulative fund rates. All of these, however, raise revenue for capital improvements. How are added operating costs to be funded? The county might have difficulty funding the added operating costs—sheriffs officers' wages, road maintenance, park maintenance



and so forth—because virtually all the added revenue from the riverboat is devoted to capital improvements.

The fiscal impacts using only added revenue are *negative*—costs exceed added revenues, ranging from a negative fiscal impact of \$38,147 to \$119,666.

#### *Fiscal Impact on South Harrison Community Schools*

School corporation finances differ from county finances. Schools operate under different sets of property tax controls. A major source of revenue is state aid, distributed by a complex formula. School corporations do not receive riverboat taxes directly, but do collect property taxes on riverboat assessed values.

This analysis is based on assessments, tax rates, appropriation levels, enrollment, and the school funding formula for the year 2002. The analysis shows the effect on the school corporation's budget for the single year 2002. Assessments, tax rates, appropriations levels, enrollment, and the school formula change only gradually from year to year. This means that the results for the most recent year are typical, and representative of all the years since the advent of the riverboat. Changes in property tax assessment with the 2002-03 reassessment make future impacts uncertain. School corporation revenue estimates are primarily based on property taxes and state aid. Added costs are estimated by expenditure type, summing added teacher salaries, transportation costs, other operating costs, and capital costs. A detailed discussion of the methodology is included in Appendix A.

Most of the property taxes paid on the \$44.6 million in Caesars riverboat assessed value become added revenue for the school corporation. Added revenue from property taxes amounts to \$637,887. Only the debt service fund creates tax savings. The debt repayment schedule is unchanged by the added assessed value, so the rate required to raise these payments falls. This results in \$78,353 in tax savings to existing taxpayers. Other revenues are relatively small in comparison, totaling \$59,609 in added revenue.

State aid falls by \$254,245. Assessed value per pupil is increased by the advent of the riverboat. This reduces the amount paid to the school corporation in per-pupil aid. The riverboat is assumed to have increased enrollment by 36 pupils. This adds to state aid, but not enough to offset the effect of larger assessed value per pupil. The school corporation realizes \$452,717 in added revenue, \$531,070 in total, including tax savings.

Summing added teacher, transportation, capital and other operating costs for the addition 36 pupils attributed to the riverboat yields an estimate of \$416,277 in added costs for South Harrison Community Schools.

For the South Harrison Community Schools, the fiscal impact of the Caesars riverboat appears to be *positive*. The riverboat adds \$452,717 in revenue (not counting tax savings), and adds 416,277 in costs. The fiscal impact is positive \$36,440. Counting tax savings, the impact is positive \$114,793.



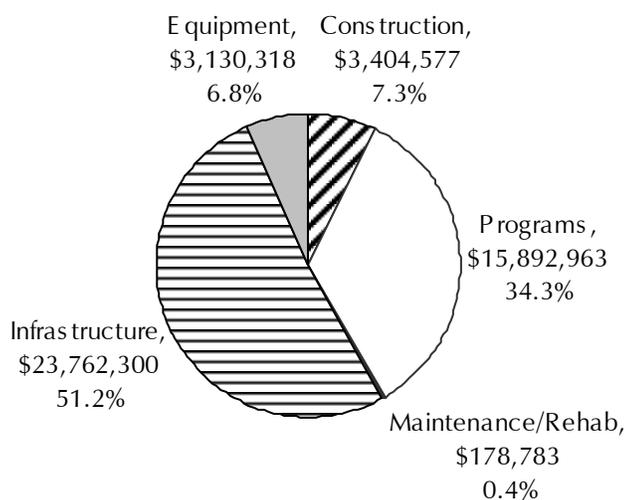
### Economic Benefits of Gaming-Related Taxes and Incentives

Since its opening in November of 1998 through June 30, 2003, Caesars has paid approximately \$149 million in local taxes and voluntary contributions to Harrison County, the Harrison County Community Foundation, the Caesars Riverboat Casino Foundation. Harrison County has contributed a total of \$15.7 million in shared tax revenue to Crawford, Floyd, and Washington counties as well as twelve local municipalities in those counties. This analysis is based on the spending by Harrison County and the two foundations through the end of 2002. It does not include spending by the other counties or the local municipalities. It also does not include the Harrison County and foundation revenue that has either not been spent or is not readily categorized. The economic impact analysis area includes Harrison, Crawford, Floyd, and Washington counties.

#### Total Spending

As illustrated in Figure 12, investments in infrastructure and community programs totaled 85.5 percent of all expenditures included in the analysis. Construction and equipment expenditures totaled 14.1 percent, and maintenance and repair of building and equipment expenditures were less than one per cent of all expenditures

**Figure 12: Spending of Riverboat-Related Tax and Incentive Payments**



Typical infrastructure investments include sidewalks, curbs, water lines and fire hydrants, lighting for parks and ball fields, as well as a countywide warning siren system. Examples of program expenditures include college scholarships for local high school graduates, art education programs, and economic education and skill building programs in the public school systems. Equipment expenditures include items such as a defibrillator for the police, books for reading program, new computers for the schools, a van for Lifespan Resources, and pagers and radios for local police and



fire departments. Construction expenditures included matching funds for Habitat for Humanity homes as well as the new YMCA. Maintenance and rehabilitation examples include the renovation of the Palmyra Habitation Facility and repairs to local ball field fencing and dugouts.

#### *Total Benefits*

From November 1998 through 2002, the total short-term economic benefit provided by the spending of local gaming-related tax revenue and negotiated incentives and enjoyed by the citizens and businesses of Harrison, Crawford, Floyd, and Washington counties was almost \$66 million. The analysis does not include tax revenue spent by other cities and towns in the area. It also does not include revenues collected but not yet expended.

How the tax dollars are spent determines both the short- and long-term economic benefits generated within the local economy. The short-term benefits are the immediate result of the spending—principally the new jobs, wages, and business activity generated as spent tax and incentive dollars work their way through the economy of the four counties. These short-term benefits represent the almost \$66 million described in this study.

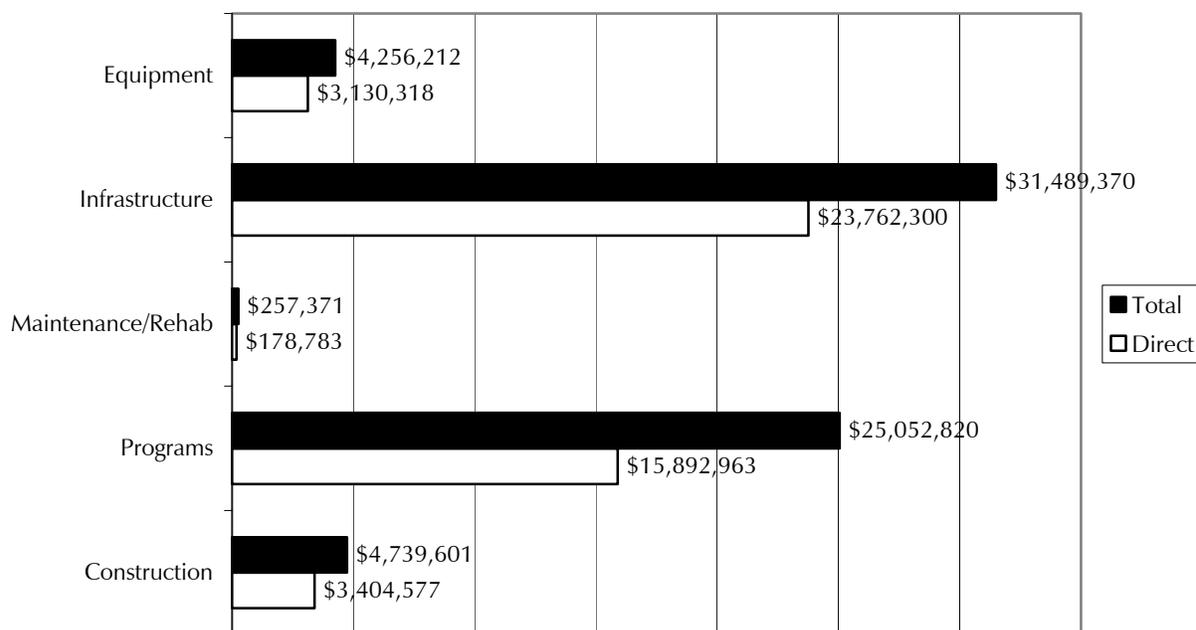
The long-term benefits are related to the degree to which the spending supports or develops competitive economic advantages for Harrison, Crawford, Floyd and Washington counties and the private business located there. These long-term benefits are not immediately measurable. However, if the local gaming-related tax and incentive dollars are spent wisely they will support the local economy for many years. The economic impact analysis also cannot measure the contributions made to the quality of life in the area. For example, while the model can measure the jobs created by the installation of a countywide warning system, the building of sidewalks and curbs, or the purchase of a new police vehicle, it cannot measure the impact of these programs on the lives of the individuals benefiting from the purchases.



### Economic Benefit by Type of Expenditure

In Figure 13, the direct impact bars represent the gaming-related expenditures made by Harrison County, the Harrison County Community Foundation, and the Caesars Riverboat Casino Foundation. The total impact bars represent the full economic benefit of the local spending decisions as they work their way through the local economy. For example, the nearly \$24 million spent on infrastructure improvements results in over \$31 million of total economic benefit, with the additional economic benefits being created by the spending of the firms building the infrastructure and the spending of the wages earned by employees working on the projects.

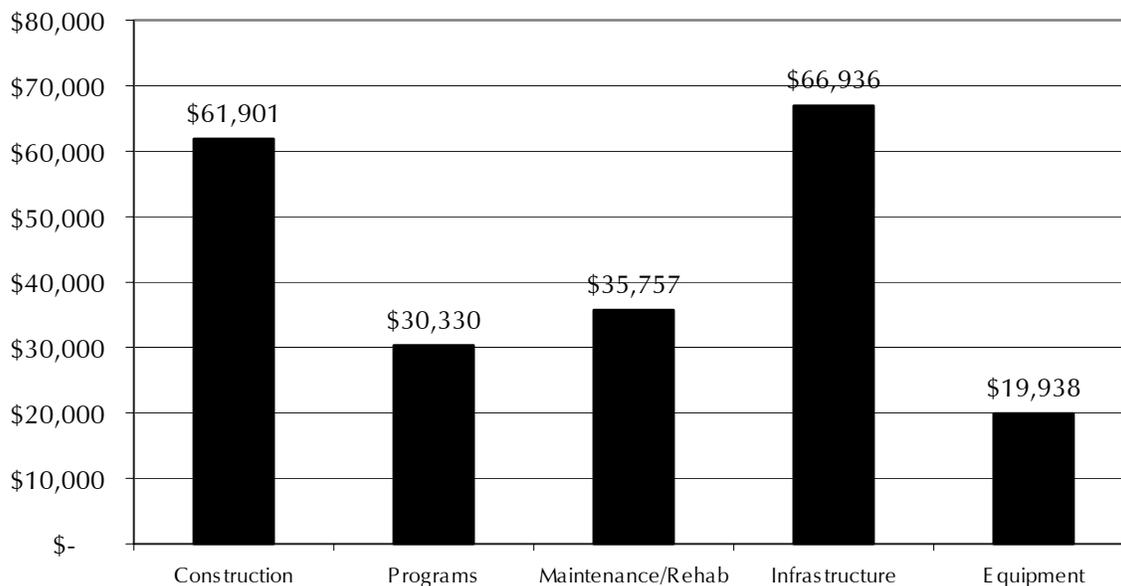
**Figure 13: Economic Contribution of Spending of Riverboat-Related Revenue**



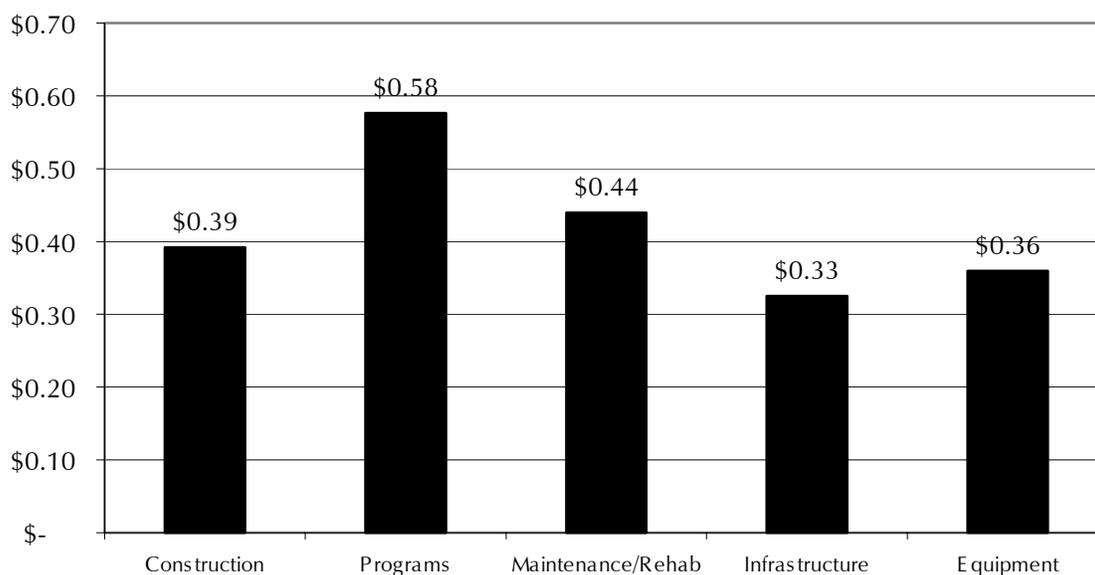


Each expenditure category provides a different measure of immediate return on the investment made. For example, as Figure 14 illustrates, for every \$61,901 invested in construction a new full-time job is created. Or, as Figure 15 illustrates, construction investments provide an additional 39 cents of economic activity for each dollar spent

**Figure 14: Investment Per Job Created**



**Figure 15: Additional Return on One Dollar Invested**



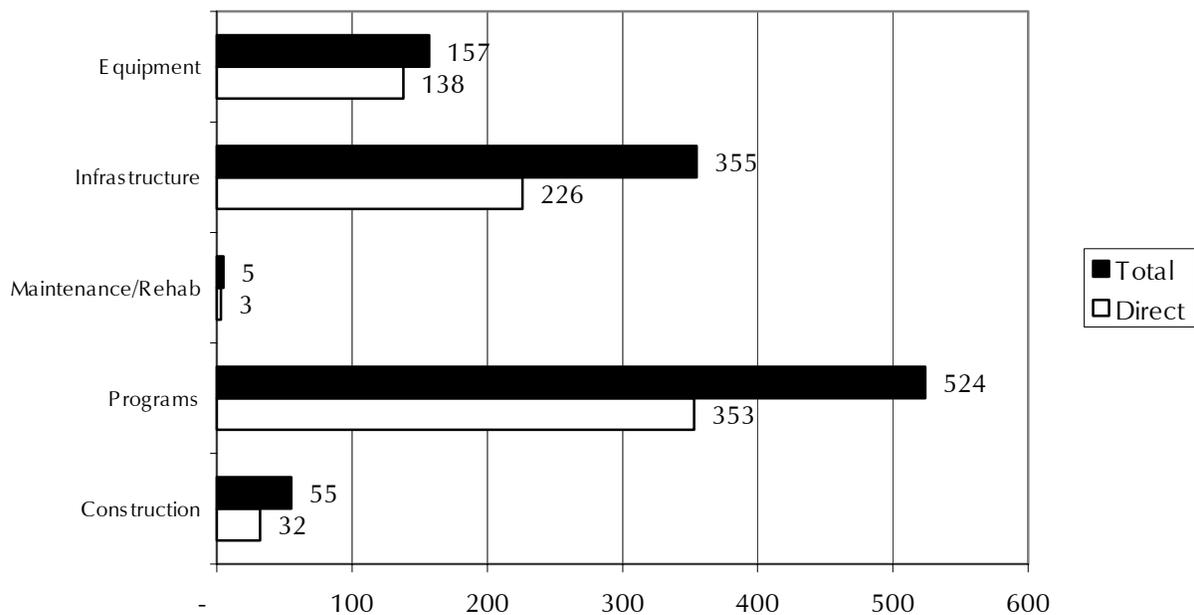


The rate of return offers local officials one perspective from which to evaluate the benefits of investing gaming-related tax revenues. However, the rate of return provides only a short-term perspective, with the economic benefits ending soon after the last dollar is spent. The long-term perspective must consider the lasting value of the improvements made. Thus, while the immediate return on operations exceeds that of construction and infrastructure, the lasting benefits of improved roads and facilities may outweigh the immediate benefits of operations. From the long-term perspective, the degree to which the investments contribute to the economic competitiveness of local firms, the local workforce, and the area's quality of life must be considered.

### *Jobs Created*

Figure 16 displays the number of jobs attributable to each category of investment made with gaming-related revenue. There were 1,096 total jobs created in Harrison, Crawford, Floyd, and Washington counties as a result of the spending of gaming-related revenue. Spending on programs created nearly 48 percent of the new jobs. Each new job represents an annual full-time equivalent measure of employment. For example, one individual employed for four years while working at a construction firm counts as four jobs.

**Figure 16: Total Employment Attributable to the Spending of Riverboat-Related Revenue**

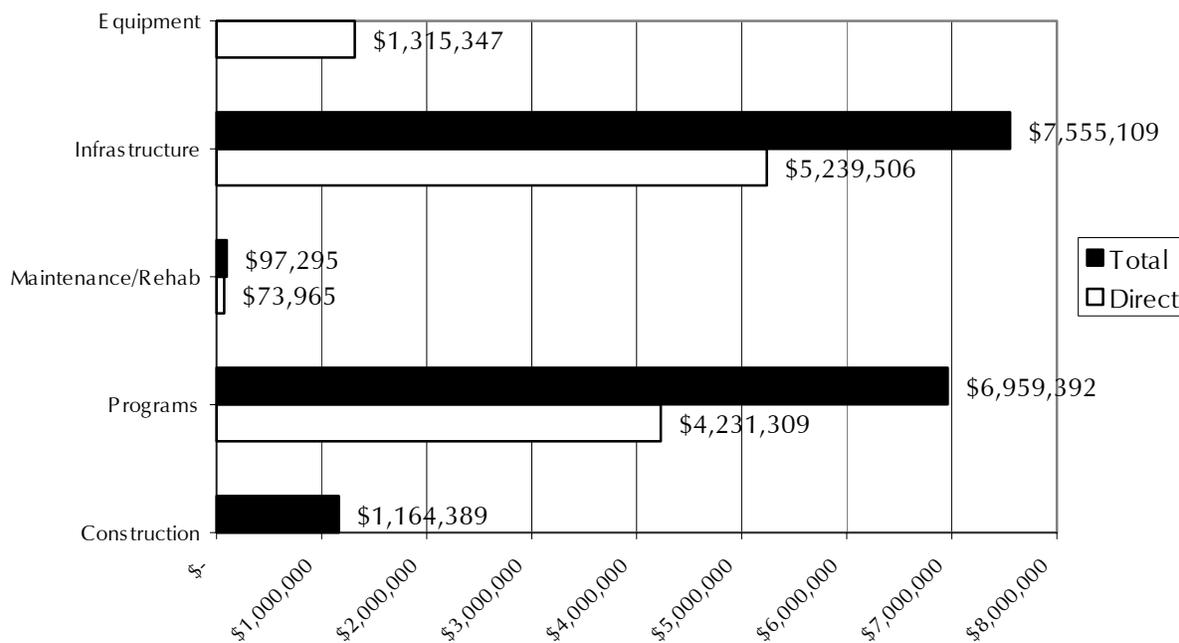




### Wages Generated

Figure 17 displays the total gaming-related earnings generated in Harrison, Crawford, Floyd, and Washington counties. The spending of gaming-related tax and incentive revenue has produced over \$17 million in total wages. The vast majority of wages were produced by programs and infrastructure expenditures. The highest average wage was created by infrastructure-related jobs (\$21,285), while equipment-related jobs produced the lowest average wage of \$10,424 per job.

**Figure 17: Total Employee Earnings Attributable to Spending of Riverboat-Related Revenue**





## OTHER ISSUES

According to Caesars, 49 lawsuits have been filed against them since opening; 27 were filed by patrons (mostly slip and falls), 12 were filed by employees and 10 were mechanic's liens. According to a phone interview with the Harrison County Sheriff's office, the area surrounding the riverboat has not experienced additional criminal activity that can be attributed to Caesars presence.

Caesars has made efforts to minimize the negative impacts of gambling. It provides a one-hour training course to all of its employees on how to recognize and refer problem gamblers. This training helps employees identify possible compulsive gamblers among patrons and employees. Caesars is a member of the Kentucky Council on Compulsive Gambling (KCCG) and its managers and executives attend KCCG forums and seminars for additional training. It also has a self-exclusion program in which, upon request by a patron, he or she is removed from personal check cashing privileges, credit privileges, direct mail marketing materials, and promotional mail at Caesars. The minimum amount of time this exclusion period can last is six months, and after that time, if the patron wants to be reinstated, he or she must request reinstatement in writing. Since opening, 351 guests have requested self-exclusion.

As Table 15 indicates, in an effort to prevent underage gambling, Caesars has verified 501,768 identifications. In addition, they have turned away 423 patrons for being under age 21 and 6,375 patrons for not having identification.

Table 15: Caesars' Efforts to Prevent Underage Gambling

Category	1999	2000	2001	2002	2003 through 6/30	Total
Number of IDs verified	72,608	57,670	78,584	198,717	94,189	501,768
Number of patrons turned away – under age 21	78	61	87	159	38	423
Number of patrons turned away – no I.D.	847	597	885	2,715	1,331	6,375



## SUMMARY OF FINDINGS

### **Project Development Certificate Compliance**

- As of June 30, 2003, Caesars had spent \$434.6 million, \$206.4 million more than agreed to in the Certificate for the development of the project.
- Since 1998, Caesars has spent \$161.9 million locally, with the majority spent on construction.
- Caesars has contributed \$1.6 million to local area organizations.

### **Gaming Activity**

- Caesars has had attendance of almost 21 million people since opening and gross gaming receipts of \$960.8 million, for an average of \$46 of casino win per patron per cruise.

### **Impact of Gaming Activity on Tourism**

- According to a patron survey, most of Caesars patrons were regular or somewhat regular visitors.
- According to the survey, 98 percent of the patrons stated that their main reason for traveling to Harrison County was to visit Caesars.
- According to the survey, 19 percent of the patrons planned to stay in Harrison County for more than eight hours. Most of these patrons stayed overnight at the casino hotel and did not plan to do anything else in Harrison County.

### **Employment Certificate Compliance**

- As of June 30, 2003, Caesars had employment of 2,239 persons, slightly above their five-year average of 2,198. Since opening Caesars has paid \$329.5 million in wages.
- As of June 30, 2003, 44 percent of Caesars employees were women and 16 percent were minorities. Approximately 23 percent were from Harrison County and 67 percent were from Indiana. Caesars is more than meeting their commitment to hire women and minorities.

### **Impact on Caesars Workforce**

- According to a survey of employees, before beginning employment with Caesars, approximately 35 percent of employees were either not working or working part-time.
- When respondents who had been previously employed were asked to select one reason for taking a job with Caesars, 37 percent indicated that more money was their primary reason, 21 percent chose improved benefits as their reason for accepting employment and an additional 10 percent chose to begin work at Caesars because of opportunities for advancement
- According to a survey, the average increase in wages for employees, since they began work at Caesars is \$6,732.



- Almost 13 percent (241 employees) reported moving from rental housing to homeownership while employed at Caesars
- The average length of employment at Caesars was three years and three months.
- Sixty-nine percent of all respondents report receiving training related to their position at Caesars. Only 11 percent received general or basic skill training from Blue Chip, and 14 percent paid for additional training themselves.

### **Tax Revenue Collected**

- Caesars has paid over \$169 million in direct taxes to the state of Indiana since it opened.
- Caesars has paid over \$100 million in direct taxes to the local area since it opened.

### **Incentive Payment Certificate Compliance**

- Caesars is on schedule with its incentive payments and has provided \$49.2 million in incentive payments.
- While all the fixed incentives were completed in year one, the largest, the contingent incentive that is donated to the foundations, will continue into the future.

### **Fiscal Impact of Tax Revenues on Local Government**

- In total, the fiscal impact of the Caesars riverboat on Harrison County and the South Harrison Community School Corporation is positive; total added revenues greatly exceed total added costs.
- However, the fiscal impact analysis implies that for both the city and county, without riverboat taxes, the additional revenue may not be enough to meet the added operating costs that the riverboat and its employees may create.
- The school corporation receives no riverboat taxes, but the added revenue from property taxes and state aid are added to its budget, for the most part. The positive impact results from the relatively small increase in enrollment, compared to the large increase in assessed value.

### **Economic Benefits of Gaming-Related Taxes and Incentives**

- The total economic benefit produced through the spending of Caesars local gaming revenue was over almost \$66 million.
- Local area employment attributable to this economic benefit was 1,096 jobs with earnings of over \$17 million.

### **Other Issues**

- In an effort to prevent underage gambling, Caesars has verified over 500,000 identifications. In addition, it has turned away 423 patrons for being under age 21 and 6,375 for no identification.
- Caesars has a self-exclusion program and since opening, 351 guests have requested self-exclusion.



**APPENDIX A:  
METHODOLOGY FOR ESTIMATING LOCAL REVENUES AND COSTS**



### **City and County Revenue Estimates**

The first step in revenue modeling was to obtain the assessed value (AV) of each riverboat project. Local assessors and personnel from the Indiana Department of Local Government Finance aided in this effort. Assessments were obtained for 1999 pay 2000, that is, the assessed values of March 1, 1999, upon which year 2000 tax payments were based. Assessments for the 2002-03 reassessment were not yet available for Harrison County. The real and personal property assessed value for the many parcels owned by the riverboats were summed. The value of the land prior to its purchase by the riverboat companies was used to estimate the AV before construction. The incremental AV, found by subtracting the pre-development AV from the total of developed lots, avoids double-counting revenues that would have been collected in the absence of development. Deductions and exemptions were then subtracted from the incremental AV to produce the added net taxable AV.

A jurisdiction's AV could also increase if riverboat employees construct new homes. The survey results for Caesars employees show that three are living in single family homes constructed since 1995. The analysis assumes that three new homes were constructed.

In Indiana, property tax revenue is not simply the product of the local rate and the taxable AV. Property tax controls limit the amount of revenue that can be raised. For civil jurisdiction (non-school) operating funds, the state places a ceiling on the amount of property taxes that can be raised, called the maximum levy. The maximum levy rises by about five percent per year, no matter what changes occur in AV. Thus, added AV *will not increase* the amount of operating fund tax revenue that is collected by civil jurisdictions-the levy would have increased by about five percent in any case.

If AV rises but the levy does not, the tax rate will fall. Existing taxpayers receive tax reductions. The fiscal impact of a development must be divided into two parts: added revenue to the local government, and tax savings to existing taxpayers.

Non-operating funds operate under different rules. The welfare fund is not subject to the same controls as the operating fund, yet new welfare revenue is unlikely to be raised by the addition of new AV. Welfare expenditures are typically targeted to meet specific needs, determined by state eligibility rules and court mandates. It is assumed that the welfare levy does not change with the added AV, so the welfare portion of the property tax rate falls. Again, this produces tax savings for existing taxpayers, because the higher AV means the welfare bill can be paid with a lower tax rate.

The property tax cumulative funds are subject to specific rate controls, rather than levy controls, so new AV will be taxed at the current rate. Added AV produces new revenue for jurisdiction cumulative funds. The revenue raised by the cumulative fund property tax is simply the product of the rate and the new development's AV.

The amount of annual debt service is usually fixed by the conditions of the bond sale. Added AV decreases the tax rate required to raise this debt service, so it produces tax savings for existing taxpayers.



There are several other categories of local government revenue, including income taxes, motor vehicle excise taxes, license and permit fees, fines, and other miscellaneous sources. There are three local income taxes available to Indiana civil governments, known as the County Adjusted Gross Income Tax (CAGIT), the County Option Income Tax (COIT), and the County Economic Development Income Tax (CEDIT or EDIT). Harrison County has CAGIT at 0.75% and CEDIT at 0.25%. These rates are multiplied by the new taxable incomes of riverboat employees, which is the sum of the total pay of new in-migrant employees, and the pay increases of new resident employees. Revenue is divided among local jurisdictions based on shares in the property tax levy. Part of the CAGIT revenue must be used for property tax relief, and so is counted as tax savings.

All cars, light trucks, and motorcycles are subject to Indiana's motor vehicle excise tax. The employee survey results were used to estimate the number of new vehicles brought into the jurisdiction by riverboat employees. The total amount of excise tax is calculated using the excise tax schedule. Some state aid is tied to excise tax collections, and this amount was added to excise tax collections. The county, city, and school corporation each receive a fraction of this countywide revenue, based approximately on that unit's share in countywide property taxes.

Charges, fines, fees, and other revenues are assumed to be directly linked to population increase, so an average costing method of estimating the revenue is employed. Two categories of data, charges and fees and other revenues, were collected from Indiana's Local Government Database. The amounts collected were divided by the most recent jurisdiction population estimates. These per capita amounts were multiplied by the number of new residents to obtain added revenue estimates. The riverboat projects themselves are assumed to generate no additional charges and fees.

The largest revenue impact of a riverboat, of course, are the riverboat taxes paid to the county and city governments. The school corporation does not directly receive riverboat taxes.

### **County Cost Estimates**

Several methods are used. Regression equations were estimated to show the effects of changes in employment and population on appropriations. Each ten percent increase in population is found to increase appropriations by about 7.5 percent. Population measures the demands of county residents for county services. Each ten percent increase in employment is found to increase appropriations by about 0.8 percent. Employment is "place-of-work" employment, that is, the number of full- and part-time employees of firms in the county, regardless of where those employees live. This variable is used to indicate the level of commercial/industrial development in the county, which also places demands on county services.

Riverboats increase population and employment. The percentage increase in population and employment, times the regression coefficients, yields the percentage increase in appropriations.

Another set of methods used to calculate the added local government costs of riverboats for civil governments are labeled "FIA methods," for "fiscal impact analysis methods." These are derived from the techniques presented by Burchell and Listokin in their 1978 classic *Fiscal Impact Handbook*. Per capita appropriations are calculated for the county and city, by dividing total appropriations by



jurisdiction population. The added population resulting from the riverboat is then multiplied by per capita appropriations to estimate the costs of added people.

The FIA method used for the riverboat itself is called proportional valuation. In its simplest form, this method attributes a share of existing appropriations to the costs imposed by existing commercial/industrial property, equal to the share of commercial/industrial real assessed value in total real assessed value. If, for example, a county spends one million dollars a year, and real commercial/industrial property is 15 percent of real assessed value, \$150,000 would be assigned as costs due to existing commercial/industrial property. The next step takes the new development's real assessed value as a percentage of existing commercial/industrial real assessed value. This percentage is multiplied by the appropriations attributed to existing commercial/industrial property, to give the estimated cost impact of the new development. For example, if the new development is ten percent of existing commercial/industrial real AV, it is estimated that commercial/industrial costs will rise by ten percent, or \$15,000 in this example.

Burchell and Listokin refined this method to recognize that a small number of large commercial/industrial parcels are less expensive to serve than a large number of small commercial/industrial parcels. Economies of scale and location are the reasons. One multi-lane road serving a big development costs less than many two-lane roads serving many small developments. Police protection may be provided more cheaply to a single large location than to many small, scattered locations.

Burchell and Listokin's refinement coefficients reduce costs attributed to existing commercial/industrial firms the larger is the average commercial/industrial parcel compared to the average parcel overall. They reduce costs attributed to the new development the larger is the development compared to existing average commercial/industrial parcel. The refinement coefficients were based on a review of a large number of commercial/industrial cost studies.



Table A1: Fiscal impact estimates for Harrison County

Revenues		Added Revenue (\$)	Tax Savings (\$)	Total (\$)
	Property Tax		14,899	228,735
Operating		-	175,475	175,475
Welfare		-	53,259	53,259
Cumulative		14,899	-	14,899
Debt Service		-	-	-
Local Income Tax		22,292	2,739	25,031
Other Revenues		13,390	-	13,390
Riverboat Taxes		23,248,162	-	23,248,162
TOTAL		23,298,743	231,473	23,530,217
Costs		FIA Methods	Regression	
	TOTAL	88,728	170,247	
Fiscal Impacts (Revenues less added costs)			Added Revenue Only (\$)	Total (\$)
	FIA Methods		23,210,015	23,441,488
	Regression		23,128,496	23,359,969
Fiscal Impacts w/o Riverboat Taxes			Added Revenue Only (\$)	Total (\$)
	FIA Methods		(38,147)	193,326
	Regression		(119,666)	111,807



### **School Corporation Revenue Estimates**

Schools receive most of their revenue from two sources, property taxes and state aid. Property tax impacts may be calculated as the existing tax rate times the new assessed value. For debt service, the levy is assumed to remain the same, since it is based on the fixed debt repayment schedule. Added assessed value reduces the rate required to raise this part of the levy, producing tax savings.

The majority of state funding comes in the form of the Basic Grant. The Basic Grant is calculated using a complicated formula requiring specific information concerning past and current enrollment, tax rates, and the assessed value and revenues of the school district over the past few years. Other grant programs include the At-Risk Grant, the ADA Flat Grant, the Special Education Grant, the Academic Honors Grant, and the Vocational Education Grant.

Using the actual state aid formula to calculate riverboat fiscal impact introduces a number of intractable problems. For example, the previous year's tax levy and state aid level are elements in the current year's formula calculation. To isolate the impact of the riverboat, presumably the previous year's figures should not include the riverboat's influence. Of course, for the aid calculation in 2000, the 1999 levy and aid figures did include the riverboat's influence, and were themselves the results of calculations that included the levy and aid figures for 1998. Further, go back more than two years and the formula calculations themselves are different.

As an alternative, state aid per pupil can be modeled with reasonable accuracy using a simpler "foundation" formula:

State Aid per pupil = Target Spending per pupil - (Target Tax Rate x AV per pupil).

The result is multiplied by enrollment to give total state aid. The formula implies that as assessed value per pupil increases, state aid per pupil decreases. More state aid is delivered to school corporations with lower wealth per pupil. In addition, as enrollment increases, state aid increases. Thus, any new development that increases both AV and enrollment may increase or decrease state aid, depending on the values of target spending and the target tax rate, and on the relative increase in AV and enrollment.

Regression analysis can be used on data for 2002 to reduce the actual formula distribution of aid to this simpler form. The result is the formula

State Aid per pupil = \$5,162 - (0.0099 x AV per pupil).

The 0.0099 figure is the target tax rate, and means \$0.99 per \$100 assessed value. Each added \$1,000 AV per pupil reduces aid per pupil by about \$9.90. This formula allows a calculation of the effect of the riverboat on state aid. The riverboat adds assessed value, the new resident riverboat employees' children add enrollment. This alters AV per pupil, and hence state aid per pupil. The new state aid per pupil times enrollment is the estimate of the riverboat's impact on total aid.



### **School Corporation Cost Estimates**

School corporation costs are estimated using the service standard method. This method asks what added expenditures would have been needed to maintain the existing level of service given the additional enrollment. The pupil-teacher ratio is the best indicator of service standard available, though of course it does not fully capture the level of educational service provided. If new development brings higher enrollment, new teachers must be hired to maintain the current class size. The number of new teachers to be hired equals new enrollment divided by current class size. The result is multiplied by the school corporation's average teacher salary.

Capital expenses deal with the expansion of physical facilities, including the building of new schools or expansion of existing structures. Students across all school districts typically require similar facilities, so the standard chosen to represent capital costs is building area per student. According to Indiana's 1995 School Construction Benchmark Committee report, the average amount of space required by the average student is 150 square feet. The report also sets the cost of physical expansion at \$100 per square foot.

It is important to note that while the other categories of costs in this model are annual costs, capital expenses are a long-term investment. Local government bonds finance expansion of school facilities and the costs are amortized over a several years. It is assumed that the school corporation will finance the capital expense with a 20-year bond at the current state and local bond interest rate of 4.7 percent (as of June 2003, according to the Federal Reserve Board). Multiplying the additional enrollment by the service standard for required facility space gives the necessary area of expansion. The total cost of this expansion is calculated at \$100 per square foot. The annual annuity payment to finance this total cost is calculated over 20 years at 4.7 percent.

Other school operating expenditures include a myriad of categories, such as nurse services, food preparation, transportation, and building maintenance. These are summed and divided by enrollment to yield a per pupil average. This average is multiplied by the increase in enrollment to estimate added other costs.

Note that all of these methods depend on the number of additional pupils the riverboat brings to the school corporation. If there are no additional pupils, there are no additional costs. This can happen if the new pupils replace others who have departed from the school system. However, since South Harrison Schools have seen overall increases in enrollment since the advent of the riverboat, it is assumed that the new pupils attributed to the riverboat have added to costs.



Table A2: Fiscal impact estimates for South Harrison Community Schools

Revenues		Added Revenue (\$)	Tax Savings (\$)	Total (\$)
Property Tax		637,887	78,353	716,239
General Fund		371,630		371,630
Debt Service Fund		-	78,353	78,353
Capital Projects Fund		170,749	-	170,749
Transportation Fund		94,174	-	94,174
Other Funds		1,333		1,333
Other Own-Source Revenues		59,609	-	59,609
Other Taxes		9,467	-	9,467
Charges and Fees		18,310		18,310
Other Revenues		31,832		31,832
State Aid		(254,245)	-	(254,245)
TOTAL		452,717	78,353	531,070
Costs		Per Pupil		
	TOTAL	416,277		
	Fiscal Impacts		Added Revenue Only (\$)	Total (\$)
		Per Pupil	36,440	114,793